

WHITE & CASE LLP

David M. Turetsky
Samuel P. Hershey
1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 819-8200
Facsimile: (212) 354-8113
Email: david.turetsky@whitecase.com
sam.hershey@whitecase.com

– and –

WHITE & CASE LLP

Michael C. Andolina (admitted *pro hac vice*)
Gregory F. Pesce (admitted *pro hac vice*)
111 South Wacker Drive, Suite 5100
Chicago, Illinois 60606
Telephone: (312) 881-5400
Facsimile: (312) 881-5450
Email: mandolina@whitecase.com
gregory.pesce@whitecase.com

Counsel to the Official Committee of Unsecured Creditors

WHITE & CASE LLP

Keith H. Wofford
Southeast Financial Center
200 South Biscayne Blvd., Suite 4900
Miami, Florida 33131
Telephone: (305) 371-2700
Facsimile: (305) 358-5744
Email: kwofford@whitecase.com

– and –

WHITE & CASE LLP

Aaron Colodny (admitted *pro hac vice*)
555 South Flower Street, Suite 2700
Los Angeles, California 90071
Telephone: (213) 620-7700
Facsimile: (213) 452-2329
Email: aaron.colodny@whitecase.com

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re:)	
)	Chapter 11
CELSIUS NETWORK LLC, <i>et al.</i> , ¹)	
)	Case No. 22-10964 (MG)
Debtors.)	
)	(Jointly Administered)
)	

**RESPONSE OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS
PURSUANT TO THE COURT’S JANUARY 5, 2024 ORDER**

The Official Committee of Unsecured Creditors (the “**Committee**”) appointed in the chapter 11 cases (these “**Chapter 11 Cases**”) of the above-captioned debtors and debtors-in-possession (collectively, the “**Debtors**” and, together with their non-Debtor affiliates, “**Celsius**”)

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are: Celsius Network LLC (2148); Celsius KeyFi LLC (4414); Celsius Lending LLC (8417); Celsius Mining LLC (1387); Celsius Network Inc. (1219); Celsius Network Limited (8554); Celsius Networks Lending LLC (3390); Celsius US Holding LLC (7956); GK8 USA LLC (9450); GK8 Ltd. (1209); and GK8 UK Limited (0893). The location of Debtor Celsius Network LLC’s principal place of business and the Debtors’ service address in these chapter 11 cases is 50 Harrison Street, Suite 209F, Hoboken, New Jersey 07030.

files this *Response Of The Official Committee Of Unsecured Creditors Pursuant To The Court's January 5, 2024, Order* (this “**Response**”)² pursuant to the Court’s *Order Requiring Response From Debtors* (the “**Order**”) [Docket No. 4195] issued on January 5, 2024, wherein the Court ordered the Committee to respond to *pro se* creditor Georgios Krasadakis’s letter dated January 3, 2024 (the “**Krasadakis Letter**”) [Docket No. 4190]. The Court further ordered that the Committee respond to the email of Pawel Bednarek dated January 8, 2024 [Docket No. 4221] (the “**Bednarek Email**”) in that same response.

RESPONSE

1. CelsiusX was created in early 2022 as a division of Celsius that aimed to build and operate a token wrapping bridge to enable users to move digital assets across different blockchains (e.g., from the Ethereum network to the Polygon network).³ Publicly available information on how CelsiusX was supposed to operate (or actually operated) is limited and the Committee understands that the program had not been launched in its final form prior to the Petition Date. The information contained in this Response is based on the Committee’s review of the Celsius website,⁴ Medium blogs posted by Celsius,⁵ YouTube videos published by Celsius,⁶ and certain diligence requests made by the Committee’s counsel to the Debtors’ counsel. Although there is a link to a site that appears to have been created by Celsius and purports to contain additional

² Capitalized terms used but not otherwise defined in this Response shall have the meanings ascribed to those terms in the *Modified Joint Chapter 11 Plan of Celsius Network LLC and its Debtor Affiliates* (the “**Plan**”), attached as Exhibit A to the *Finding of Fact, Conclusions of Law, and Order Confirming the Modified Joint Chapter 11 Plan of Celsius Network LLC and its Debtor Affiliates* [Docket No. 3972].

³ Celsius, *Introducing CelsiusX*, <https://medium.com/@CelsiusX/introducing-celsiusx-a975f4c371ab> (Jan. 19, 2022).

⁴ Celsius, *Introducing CelsiusX*, <https://support.celsius.network/hc/en-us/articles/5475430575645-Introducing-CelsiusX> (Jun. 10, 2022).

⁵ CelsiusX, *Medium*, <https://medium.com/@CelsiusX> (last visited Jan. 11, 2024).

⁶ Celsius Network, *CelsiusX - Cross-chain Liquidity Bridge & Wrapped Tokens*, YOUTUBE, https://www.youtube.com/watch?v=ex_QeptlC_E (Nov. 4, 2021).

documents, that link is broken⁷ and can only be accessed through internet archive services.⁸ The documents contained in that link do not include any contracts between Celsius and any account holders who participated in the Celsius X program. There is no mention of CelsiusX in the General Terms of Use, nor is the Committee aware of a distinct set of terms of use governing the CelsiusX program.⁹ The Committee was not aware of Mr. Krasadakis and Mr. Bednarek's situations prior to the filing of the Krasadakis Letter and the Bednarek Email, and neither of them objected to the Plan at confirmation.

A. Token Wrapping Generally

2. Digital assets cannot generally move directly between two different chains—for instance, if a Bitcoin holder attempts to send that Bitcoin to an Ethereum wallet address, the Bitcoin will be lost forever because it cannot interact with the Ethereum blockchain, making it irretrievable.¹⁰ In other words, Bitcoin and Ethereum are not “interoperable.” One solution for supporting blockchain interoperability is through “wrapping” tokens to be deployed on other chains.¹¹

3. Token wrapping bridges generally operate via smart contracts that programmatically lock up tokens on their native chains (the “**Base Tokens**”) while simultaneously “minting” corresponding tokens on a 1:1 basis on a new chain to represent the applicable Base

⁷ CelsiusX, *Docs*, <https://docs.celsiusx.io/> (last visited Jan. 11, 2024).

⁸ CelsiusX, *Docs*, THE INTERNET ARCHIVE, <https://web.archive.org/web/20220810175411/https://docs.celsiusx.io/> (archived Aug. 10, 2022).

⁹ See generally *Declaration of Alexander Mashinsky, Chief Executive Officer of Celsius Network LLC, Providing Terms Dating Back to February 18, 2018* [Docket No. 393], Ex. A-8 (the “**April 2022 Terms of Use**”).

¹⁰ The Ethereum Foundation, *Bridges*, <https://ethereum.org/en/developers/docs/bridges/> (“Blockchains exist in siloed environments, meaning there is no way for blockchains to trade and communicate with other blockchains naturally.”) (last visited Jan. 11, 2024).

¹¹ *Id.* (“Bridges offer a way for isolated blockchain environments to connect with each other. They establish a transportation route between blockchains where tokens, messages, arbitrary data, and even smart contract calls can be transferred from one chain to another.”).

Tokens (the “**Wrapped Tokens**”).¹² A Wrapped Token would then be able to interact with decentralized finance applications on the target blockchain.¹³ If a Wrapped Token holder wishes to unlock and recover the corresponding Base Token, that holder must follow the prescribed “unwrapping” procedures to unlock the Base Token held in the vault and withdraw the Base Token to its native blockchain.¹⁴ It is generally understood that there is a risk that the custodian of reserves underlying wrapped tokens may become insolvent or otherwise unable to redeem wrapped tokens for the underlying assets.¹⁵

B. The CelsiusX Program

4. The CelsiusX program was designed to grant users the ability to wrap digital assets for use on external networks without charging fees, as other platforms often do.¹⁶ The Committee understands that CelsiusX initially operated a bridge for three assets to the Polygon chain: ETH,

¹² *Id.* (explaining that one of the primary ways to “bridge” tokens between blockchains is to “[l]ock assets on the source chain and mint assets on the destination chain”).

¹³ The Ethereum Foundation, *Blockchain bridges*, <https://ethereum.org/bridges> (“To own native BTC, you would have to bridge your assets from Ethereum to Bitcoin using a bridge. This will bridge your WBTC and convert it into native BTC. Alternatively, you might own BTC and want to use it in Ethereum DeFi protocols. This would require bridging the other way, from BTC to WBTC which can then be used as an asset on Ethereum.”) (last visited Jan. 11, 2024).

¹⁴ The Ethereum Foundation, *How to bridge tokens to layer 2*, <https://ethereum.org/guides/how-to-use-a-bridge> (“Can I go back to Ethereum mainnet after I bridge my tokens to L2? Yes, you can always move your funds back to the mainnet using the same bridge.”) (Dec. 8, 2023).

¹⁵ See, e.g., <https://medium.com/vesperfinance/defi-101-the-importance-of-wrapped-tokens-2340762947da#:~:text=As%20wrapped%20tokens%20rely%20on,tokens%20for%20the%20underlying%20Bit%20coin>. (“As wrapped tokens rely on a third party to hold and manage the underlying assets, insolvency risk becomes a real threat. If the party responsible for managing a wrapped Bitcoin for example goes bankrupt, the token holder may not be able to redeem their tokens for the underlying Bitcoin.”); see also <https://www.coinbase.com/en-gb/asset-risks> (“The underlying assets for wrapped tokens may be held in custody by a third party. If this party becomes insolvent, mismanages the assets or is subjected to fraud or hacking, the value of the wrapped token may be jeopardized.”).

¹⁶ Celsius, *Introducing CelsiusX*, <https://medium.com/@CelsiusX/introducing-celsiusx-a975f4c371ab> (Jan. 19, 2022).

ADA, DOGE.¹⁷ CelsiusX appears to have later added support for BTC.¹⁸ CelsiusX was designed to initially “utilize the Celsius backend as a bridge,” with the eventual goal of providing a fully decentralized bridge.¹⁹ CelsiusX was not offered to U.S. customers.²⁰

5. The Committee understands that a CelsiusX user could only wrap a token by first depositing a Base Token onto the Celsius platform.²¹ The only accounts available to move coins onto the Celsius platform and to CelsiusX were Earn accounts, as the Custody Program had not been created when CelsiusX was launched. Moreover, even when it was launched, the Custody Program was not offered to international customers, who were the only account holders that could access CelsiusX.²² The Committee understands that an eligible account holder could then “withdraw” a CelsiusX wrapped version of the deposited token (*e.g.*, cxETH, cxADA, or cxDOGE) (such Wrapped Tokens, the “**CelsiusX Tokens**”) to an external wallet address on the Polygon network, while the Base Token remained “locked up” with CelsiusX, and the user’s

¹⁷ See CelsiusX, *How to Send & Receive Assets Using the CelsiusX Bridge to Polygon*, <https://medium.com/@CelsiusX/how-to-receive-assets-using-the-celsiusx-bridge-to-polygon-8d2bce60cd7b> (“Currently, you can bridge Ethereum (ETH), Cardano (ADA) and DogeCoin (DOGE) to Polygon. The corresponding assets will be cxETH, cxADA, and cxDOGE, respectively.”) (Feb. 17, 2022).

¹⁸ The Celsius reserves webpage indicates that BTC was also offered, although the link to view the reserves thereof is broken. Celsius, *Proof of Reserves*, <https://celsiusx.io/reserves> (last visited Jan. 11, 2024). The Debtors, however, have represented to the Committee that BTC was supported by CelsiusX.

¹⁹ CelsiusX, *Cross Chain Liquidity Bridge: Overview*, <https://web.archive.org/web/20220810175422/https://docs.celsiusx.io/cross-chain-liquidity-bridge/overview> (last visited Jan. 11, 2024).

²⁰ CelsiusX, *CelsiusX is Live!*, <https://medium.com/@CelsiusX/celsiusx-is-live-6b6efb6f771e> (“Disclaimer — CelsiusX is unavailable to U.S. users, but we are currently working on making this available to anyone.”) (last visited Jan. 10, 2024).

²¹ CelsiusX, *How to Send & Receive Assets Using the CelsiusX Bridge to Polygon*, <https://medium.com/@CelsiusX/how-to-receive-assets-using-the-celsiusx-bridge-to-polygon-8d2bce60cd7b> (explaining that users “must create an account on Celsius.network” and “have funds in [their] Celsius account” before they “can use the CelsiusX Bridge to transfer funds to the Polygon Network”) (Feb. 17, 2022); CelsiusX, *Bridging Tokens With Celsius*, <https://web.archive.org/web/20220810175433/https://docs.celsiusx.io/cross-chain-liquidity-bridge/bridging-tokens-with-celsius> (“Celsius users will be able to use the bridge to wrap tokens directly within the Celsius app . . . and choose from a selection of networks.”) (last visited Jan. 11, 2024).

²² See Declaration of Oren Blonstein, Head of Innovation and Chief Compliance Officer of Celsius Network Limited, With Respect to Certain Phase I Issues Pursuant to the Joint Stipulation and Agreed Scheduling Order by and Among the Debtors, the Committee, and the Ad Hoc Groups With Respect to the Custody and Withhold Issues [Docket No. 1192] (the “**Blonstein Declaration**”), ¶ 4.

account balance would reflect a withdrawal of the Base Token.²³ CelsiusX Tokens were not held on the Celsius platform and could be freely used outside of the Celsius ecosystem by the user.²⁴ The CelsiusX Tokens could be redeemed for the underlying assets (or “unwrapped”) at any time by using the bridge—*i.e.*, a user could deposit a CelsiusX Token back into his or her account, thus unwrapping the Base Token.²⁵

6. Celsius also advertised that, unlike other wrapping programs, CelsiusX “offer[ed] yield generation on both the target and native blockchains for ERC20 tokens.”²⁶ Celsius stated that “[u]sers will be able to use Celsius as a passive yield generating platform (as they did before) while also being able to use CelsiusX as a bridge to bring their assets into the Polygon ecosystem.”²⁷ It is unclear whether Celsius deployed the Base Tokens deposited by CelsiusX users.

7. Celsius advertised that the Base Token would be locked in an externally owned vault on Enzyme Finance.²⁸ Unlike some other bridges, the Celsius bridge is not permissionless, which means that Celsius controls the underlying assets in the vault.²⁹ Celsius also advertised that it would provide proof that Celsius did not mint more wrapped tokens than it had Base Tokens

²³ CelsiusX, *Systems Design: Overview*, <https://web.archive.org/web/20220810175411/https://docs.celsiusx.io/> (“Assets are locked on one blockchain and a corresponding amount of wrapped tokens are minted on another blockchain Using the bridge, these wrapped tokens can be redeemed for the underlying asset at any time.”) (last visited Jan. 11, 2024).

²⁴ CelsiusX, *How to Send & Receive Assets Using the CelsiusX Bridge to Polygon*, <https://medium.com/@CelsiusX/how-to-receive-assets-using-the-celsiusx-bridge-to-polygon-8d2bce60cd7b> (explaining that “Celsius X Wrapped ETH will be automatically converted upon deposit” back into the Celsius platform) (Feb. 17, 2022).

²⁵ CelsiusX, *How to Send & Receive Assets Using the CelsiusX Bridge to Polygon*, <https://medium.com/@CelsiusX/how-to-receive-assets-using-the-celsiusx-bridge-to-polygon-8d2bce60cd7b> (“If you want to send funds back to Celsius from Polygon, you can do so in a few simple steps. From Celsius’ User Interface, click on the Receive tab. In your Celsius account, click on + Add new coins and search for the asset you want to bridge back to its original network (cxETH, cxADA, or cxDOGE). You will get a QR code, or you can copy the address to which you can send the funds.”) (Feb. 17, 2022).

²⁶ CelsiusX, *Introduction*, <https://web.archive.org/web/20220810175411/https://docs.celsiusx.io/>.

²⁷ Celsius, *Introducing CelsiusX*, <https://medium.com/@CelsiusX/introducing-celsiusx-a975f4c371ab> (Jan. 19, 2022).

²⁸ What is Enzyme?, <https://docs.enzyme.finance/> (last visited Jan. 11, 2024).

²⁹ The Committee understands, however, that Celsius could not unilaterally mint new CelsiusX tokens.

through a proof of reserve audit by the firm Chainlink.³⁰ The Committee understands, based on conversations with the Debtors’ counsel, that a segregated wallet that contained the Base Tokens associated with Celsius X was fully funded on the Petition Date.

8. The following Base Tokens were associated with the CelsiusX program on the Petition Date:

Base Token Type	Number of Tokens
BTC	24.85
ETH	635.29
DOGE	1,505,693.08
ADA	535,161

9. The Plan does not mention or separately classify Account Holders with CelsiusX Claims. The Plan does, however, include a catch-all, providing that “any Account Holder Claim not separately classified under the Plan shall default to classification as an Earn Claim.”³¹ Likewise “General Unsecured Claim” is defined to include “any Unsecured Claims against any of the Debtors, other than [an enumerated list of other Claims classified in the Plan].”³²

³⁰ Celsius, *Introducing CelsiusX*, <https://medium.com/@CelsiusX/introducing-celsiusx-a975f4c371ab> (last visited Jan. 11, 2024)

³¹ Plan, Art. III.B.5.a (“Class 5 consists of all General Earn Claims. For the avoidance of doubt, (i) General Earn Claim means Earn Claims (other than Convenience Claims) and (ii) any Account Holder Claim not separately classified under the Plan shall default to classification as an Earn Claim.”).

³² Plan, Art. I.A.125 (“General Unsecured Claims” means any Unsecured Claim against any of the Debtors, other than: (a) an Administrative Claim; (b) a Priority Tax Claim; (c) an Other Priority Claim; (d) an Intercompany Claim; (e) a Convenience Claim; (f) a General Earn Claim; (g) a Custody Claim; (h) a Withhold Claim; (i) a Retail Borrower Deposit Claim (and any corresponding Retail Borrower Post-Set Off Claim); (j) an Unsecured Loan Claim; (k) a Section 510(b) Claim; (l) a State Regulatory Claim; or (m) an Equitably Subordinated Claim. For the avoidance of doubt, no Account Holder Claims shall be General Unsecured Claims, but Claims for damages or other Unsecured Claims on account of Former Celsius Accounts shall be General Unsecured Claims.”).

C. Response to Krasadakis Letter and Bednarek Email

10. There is no mention of CelsiusX in the General Terms of Use. There is no agreement or indication that users owned or maintained property interests in the Base Tokens they had deposited, as there is for Custody users. And no agreement or other document provides users with CelsiusX tokens a security interest in the applicable Base Token. In fact, as far as the Committee is aware, there is no contract governing the relationship between Celsius and its account holders with respect to Base Tokens in CelsiusX. Rather, based on the facts as the Committee currently understands them, CelsiusX users have unsecured prepetition claims to return the applicable Base Tokens corresponding to the CelsiusX Tokens to be unwrapped.

11. CelsiusX claims are not separately classified in the Plan. Claims on account of the return of CelsiusX tokens fall squarely within the Plan's catch-all or the definitions of General Earn Claims or General Unsecured Claims, each of which receive identical treatment. Plan, Art. III.B.5.a ("Class 5 consists of all General Earn Claims. For the avoidance of doubt, (i) General Earn Claim means Earn Claims (other than Convenience Claims) and (ii) any Account Holder Claim not separately classified under the Plan shall default to classification as an Earn Claim."); Plan, Art. III.B.9 (providing the same treatment to General Unsecured Claims as to General Earn Claims). Neither Mr. Krasadakis nor Mr. Bednarek objected to the Plan. The Committee believes that the catch-all in the definition of General Earn Claim applies to Mr. Krasadakis, Mr. Bednarek, and all other creditors that filed Proofs of Claim on account of CelsiusX Tokens and such creditors are properly treated as holding General Earn Claims.

12. Mr. Krasadakis posits that "[i]t would be logical to assume that users seeking to deposit tokens which had a guaranteed 1 to 1 backing in the platform would not really be interested in the 'Earn' program though." *Id.* He also claims that the CelsiusX reserves (*i.e.*, the vaults in which Base Tokens were locked up) are fully funded such that users that had deposited in the

CelsiusX program could withdraw those assets, which justifies a treatment of CelsiusX holdings as “Custody” rather than “Earn.” *Id.* The mere fact that reserves of their Base Tokens exist does not transform CelsiusX users’ account balances into Custody balances. Mr. Krasadakis does not, and the Committee currently believes cannot, point to any document that provided him with a security interest or ownership interest in the Base Tokens.

13. Moreover, Mr. Krasadakis’s argument that CelsiusX users would not be interested in an Earn-like feature is inaccurate. Based on its promotional material, CelsiusX did not operate a typical decentralized bridge.³³ Instead, CelsiusX, similar to the Earn program, “offer[ed] yield generation on both the target and native blockchains for ERC20 tokens” (or at least advertised that it did).³⁴

14. In support of his request for the return of his tokens, Mr. Bednarek simply asserts that he had deposited CelsiusX Tokens with Celsius, but that his account had been suspended. Bednarek Email at 1. None of these arguments supports treating CelsiusX Account Holders any differently from Earn Account Holders.

15. Had Mr. Krasadakis and Mr. Bednarek wished to object to the classification of their claims in the Plan, the appropriate time to do so (*i.e.*, through the Plan confirmation process) has passed. It would be improper to grant them special treatment at this late stage.

³³ CelsiusX, *Introduction*, <https://web.archive.org/web/20220810175411/https://docs.celsiusx.io/> (“The CelsiusX wrapped token infrastructure enables the creation of tokens on a target chain collateralized by assets on the native blockchain. Our implementation differs from other collateralized tokens in three major aspects. First, we offer yield generation on both the target and native blockchains for ERC20 tokens.”) (archived Aug. 10, 2022; last visited Jan. 10, 2024).

³⁴ *Id.*

RESERVATION OF RIGHTS

This Response is based on the facts regarding CelsiusX as the Committee understands them at this time. The Committee reserves the right to supplement this Response if further facts come to its attention in the future.

CONCLUSION

WHEREFORE, for the reasons set forth herein, the Committee respectfully requests that this Court deny the requests raised in the Krasadakis Letter and Bednarek Email.

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Dated: January 12, 2024
New York, New York

Respectfully submitted,

/s/ Aaron Colodny

WHITE & CASE LLP

David M. Turetsky
Samuel P. Hershey
1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 819-8200
Facsimile: (212) 354-8113
Email: david.turetsky@whitecase.com
sam.hershey@whitecase.com

– and –

WHITE & CASE LLP

Michael C. Andolina (admitted *pro hac vice*)
Gregory F. Pesce (admitted *pro hac vice*)
111 South Wacker Drive, Suite 5100
Chicago, Illinois 60606
Telephone: (312) 881-5400
Facsimile: (312) 881-5450
Email: mandolina@whitecase.com
gregory.pesce@whitecase.com

– and –

WHITE & CASE LLP

Keith H. Wofford
Southeast Financial Center
200 South Biscayne Blvd., Suite 4900
Miami, Florida 33131
Telephone: (305) 371-2700
Facsimile: (305) 358-5744
Email: kwofford@whitecase.com

– and –

WHITE & CASE LLP

Aaron Colodny (admitted *pro hac vice*)
555 South Flower Street, Suite 2700
Los Angeles, California 90071
Telephone: (213) 620-7700
Facsimile: (213) 452-2329
Email: aaron.colodny@whitecase.com

*Counsel to the Official Committee of
Unsecured Creditors*